

WATER/ICRJ/FLC/KKL/RHG

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION
AUDIT AND COMPLIANCE BRANCHRESOLUTION W-4298
September 20, 2001R E S O L U T I O N

Resolution W-4298. WATERTEK, INCORPORATED (WATERTEK), OAK HILLS AND INDIAN SPRINGS DISTRICTS. ORDER AUTHORIZING AN INTERIM GENERAL RATE INCREASE SUBJECT TO REFUND, PRODUCING ADDITIONAL REVENUE OF \$15,932 (14.47%) IN OAK HILLS DISTRICT; \$4,001 (5.73%) IN INDIAN SPRINGS DISTRICT.

By Draft Advice Letter Filed on June 11, 2001 for Oak Hills District and on June 27, 2001 for Indian Springs District.

SUMMARY

This Resolution grants Watertek, a sewer utility, an interim increase in gross annual revenue of \$15,932 subject to refund for its Oak Hills District; and \$4,001 subject to refund for its Indian Springs District. The increase will provide Watertek with no rate of return on its rate base, but with sufficient monies to pay for current cash operating expenses in these districts.

By Draft Advice Letter filed June 11, 2001, Watertek, Oak Hills District, requests authority under Section VI of General Order (G.O.) No. 96-A and Section 454 of the Public Utilities (P.U.) Code to increase rates by \$134,453 or 116.04%.

By Draft Advice Letter filed June 27, 2001, Watertek, Indian Springs District, requests authority under Section VI of G.O. No. 96-A and Section 454 of the P.U. Code to increase rates by \$58,113 or 83.38%.

Two letters were received from customers of the Oak Hills District objecting to the proposed interim rate increase.

Under Rule 55 of the Commission's Rules of Practice and Procedure, proceedings involving related questions of law or fact may be consolidated. Watertek's Draft Advice Letters are substantially similar in that they both request authority to increase rates. Both

filings will be reviewed pursuant to the Service Guarantee Plan for Small Water Companies (Plan) issued February, 1996. The filings are therefore consolidated and will be addressed jointly in this Resolution.

BACKGROUND

Watertek provides sewer service to the subdivisions of Oak Hills, Indian Springs, and the community of Spreckels, in the vicinity of Salinas, Monterey County. There are approximately 448 flat rate customers in the Oak Hills District and 176 flat rate customers in the Indian Springs District. The rates for the Spreckels District (with over 200 service connections) are not included or affected by the filings.

Pursuant to its 2000 Annual Report, Watertek, Oak Hills District reported that it generated total operating revenues of \$110,135 and net loss of \$17,432. The 2000 Annual Report of Watertek, Indian Springs District disclosed total operating revenues of \$69,826 and net loss of \$4,605.

In view of the negative cash flow problem, the owner of Watertek has absorbed costs that normally would be included in rates. In fact, the filings indicate that system repairs to the existing sewer system and manpower support are likewise needed to continue operations and service.

Oak Hills District's current rate became effective February 2, 1998 (2.7% increase) pursuant to the provision of D.92-03-093; Indian Springs District's current rate was authorized in D.97-10-013 and took effect in December 26, 1997.

NOTICE AND PROTESTS

Watertek notified its Oak Hills District and Indian Springs District customers of the interim rate increase by letter dated August 17, 2001. The Water Division received two letters from customers of the Oak Hills District opposing the proposed interim rate increase. One letter states that the utility may use the revenues to finance the acquisition of other small utilities.

Water Division has replied to the letters individually.

Water Division will schedule an informal public meeting and at that time this interim rate increase and the possible permanent rate increase will be discussed.

DISCUSSION

Decision (D.) 92-03-093 dated March 31, 1992 in Order Instituting Investigation (Risk OII) I.90-11-033 the Commission adopted a number of new policies in order to respond

to the growing economic crisis that threatened investor-owned small water utilities in California to deliver clean, safe drinking water to their customers. This decision also determined that traditional ratemaking policies that are satisfactory for large water utilities are only sporadically successful in coping with the problems of Class D (up to 500 customers) and Class C (over 500 to 2000 customers) water companies.

Among others, the Commission offered in D.92-03-093 a simplified rate filing based on the Consumer Price Index, along with a new method for small companies to recover unanticipated repair costs deemed critical to continued service. In addition, the Commission increased the range of rate of return for small utilities and offered a number of streamlined procedures to simplify and speed regulatory review in order to encourage small utilities to seek Commission review of their operations as part of a more substantial adjustment in rates.

The Commission's on-going concern regarding the processing time for small water companies' transactions resulted in the creation of the Plan. The Plan provides an almost immediate simple mechanism to process an interim rate increase (within 45 days of filing). The interim increase, subject to refund, is based on a cash flow analysis. The analysis determines how much the utility needs to operate and to pay bills, including debt service. This Resolution implements this mechanism for Watertek's Oak Hills District and Indian Springs District.

The Audit and Compliance Branch (Branch) reviewed the filings and estimated that the amount of \$15,932 or 14.47% for the Oak Hills District and \$4,001 or 5.73% for the Indian Springs District would be necessary for the utility to meet its cash flow requirements.

The proposed interim rates are as follows:

Oak Hills District

	Per Quarter <u>Present</u>	<u>Proposed</u>
For each residential and Small commercial service Connection	\$64.66	\$73.55

Indian Springs District

	Per Month <u>Present</u>	<u>Proposed</u>
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For each residential and Small commercial service Connection	\$33.00	\$34.89
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In order to respond to the utility's negative cash flow problem, the Water Division recommends the proposed interim rates shown above be granted to Watertek's Oak Hills and Indian Springs Districts subject to refund pending the final results of the staff investigation needed to set permanent rates.

This Resolution is not subject to the expanded 311 Section requirements because this is an uncontested advice letter filing pertaining solely to water companies.

FINDINGS

1. The interim rates recommended by the Water Division (Appendix A) are reasonable and should be adopted.
2. The rate increase authorized herein should be subject to refund pending the completion of the staff investigation.

THEREFORE, IT IS ORDERED THAT:

1. Watertek, Inc. is authorized to file an advice letter adopting the revised Schedule No. 2, Flat-Rate Service for the Oak Hills and Indian Springs Districts attached to this Resolution as Appendix A, and concurrently cancel its presently effective rate schedule. Its filing shall comply with General Order 96-A. The effective date of the revised schedule shall be not earlier than five days after the date of its filing.
2. The rate increase authorized herein is subject to refund pending final resolution of Watertek, Inc. Oak Hills District and Indian Springs District permanent rate increase request.
3. The Advice Letter and tariff sheets shall be marked to show that they were authorized by Resolution W-4298.

4. This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on September 20, 2001; the following Commissioners voting favorably thereon:

WESLEY M. FRANKLIN
Executive Director

APPENDIX A**Schedule No. 2****FLAT-RATE SERVICE****APPLICABILITY**

Applicable to all flat-rate service.

TERRITORY

Subdivisions of Oak Hills and Indian Springs, and the community of Spreckels, in the vicinity of Salinas, Monterey County.

RATES

	<u>Per Quarter</u>		<u>Per Month</u>
	<u>Oak Hills</u>	<u>Spreckels</u>	<u>Indian Springs</u>
For each residential and small commercial service connection	\$73.55 (I)	\$107.00	\$34.89 (I)
For each service connection of a school		\$160.00	
For each service connection of a commercial establishment with 4 or more employees		\$214.00	
For each industrial service connection		\$641.00	

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

(D)

2. Spreckels customers may remit quarterly bills in three equal installments on the first day of the month.